



2006 Pension Update

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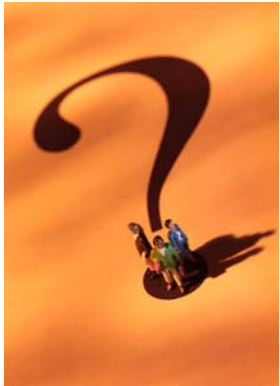
July 13, 2006



State of Washington
Office of the State Actuary

Three Questions

- Where is the pension system headed?
- Who is the State Actuary and what does he have to do with pensions?
- Are Washington's pension plans "safe"?

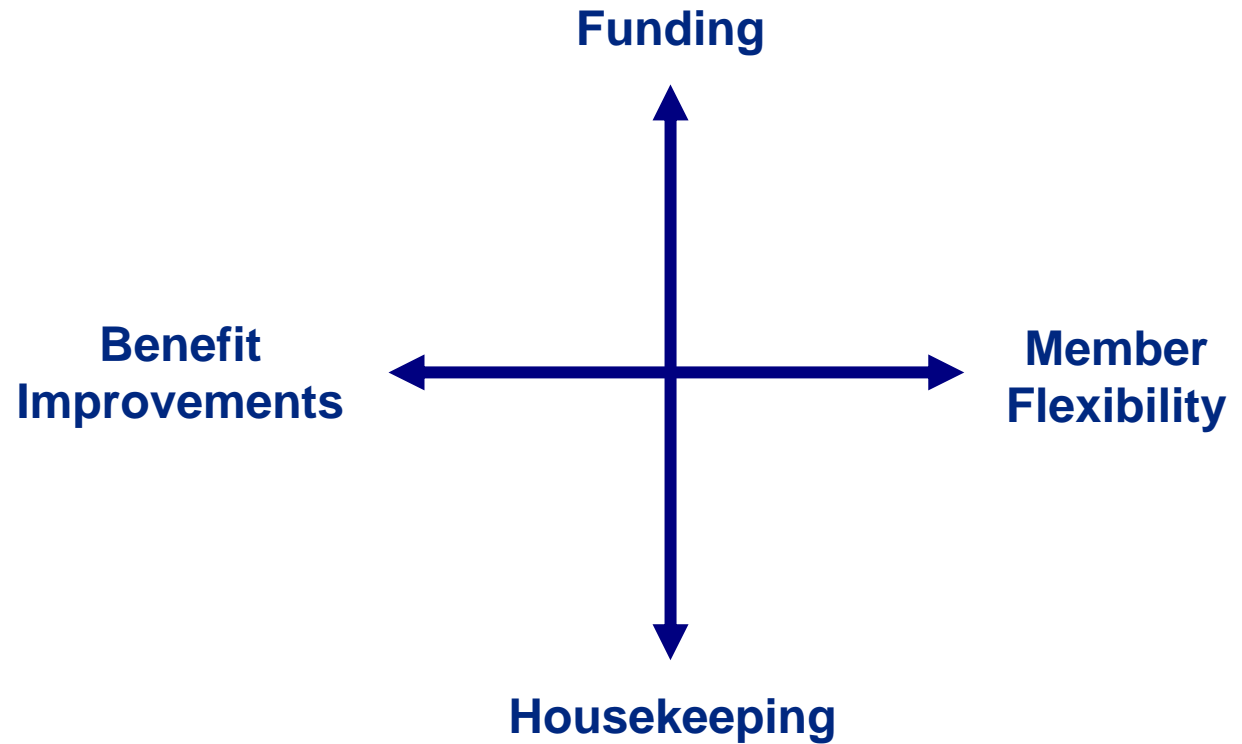


Part 1: Where is the Pension System Headed?

- Direction from 2006 Legislative session
- Topics studied by Select Committee on Pension Policy (SCPP)



Legislative Directions, 2006 Session



Pension Funding in the Forefront

- Funding in headlines
- Thirty-nine pension bills
- Nine bills re: funding
- Fifteen pension bills passed, two of which concerned funding



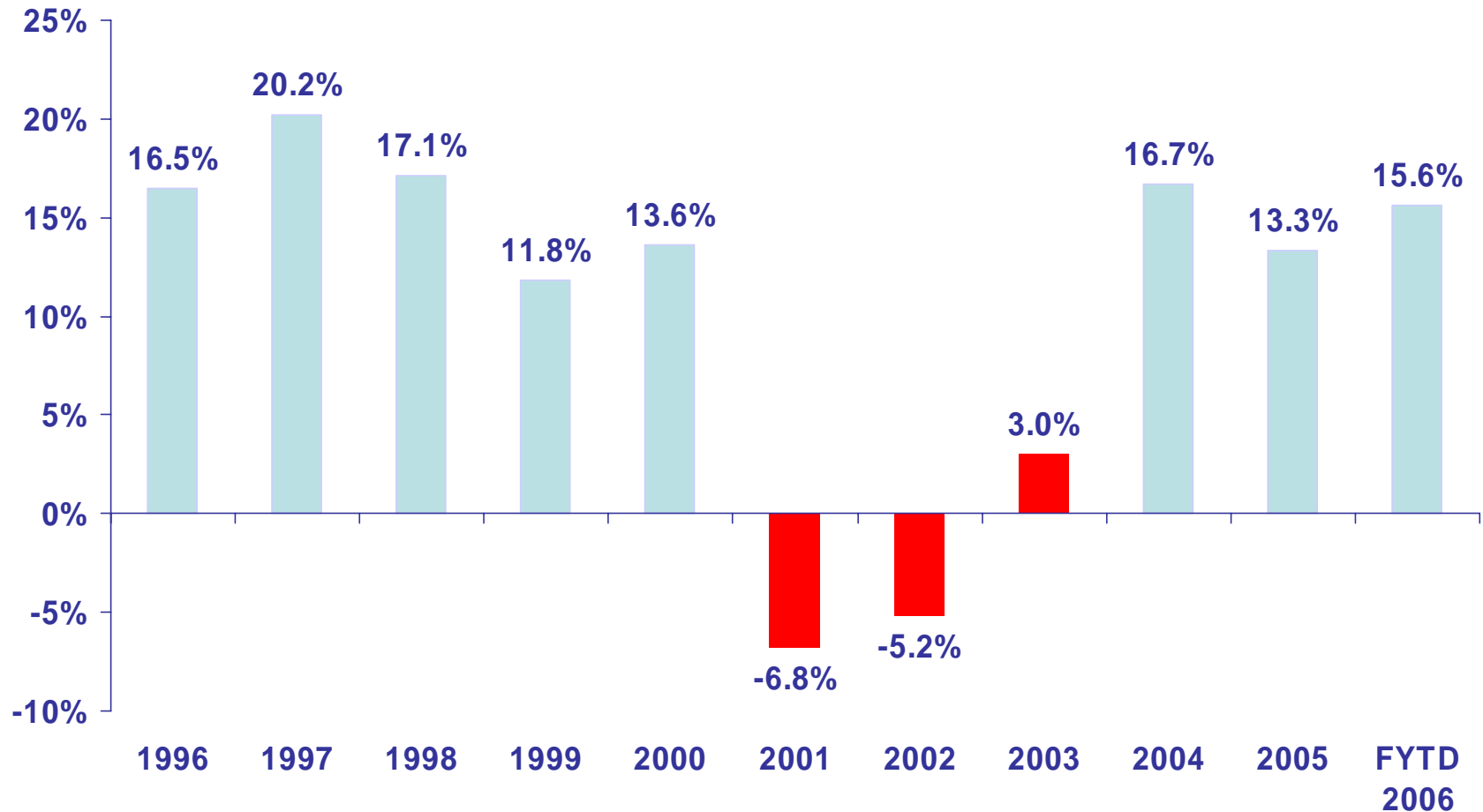
Why is Pension Funding in the Forefront?

- Late 1990s
 - Great investment returns
 - Benefit improvements
 - Contribution holidays
 - Assumption and method changes
- Early 2000s
 - Negative returns



CTF Annual Returns

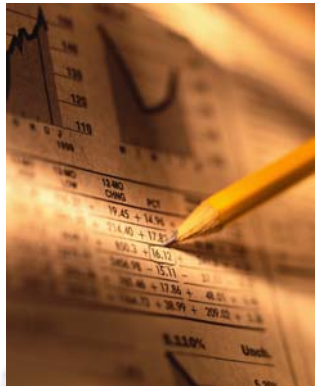
Fiscal Year ended June 30



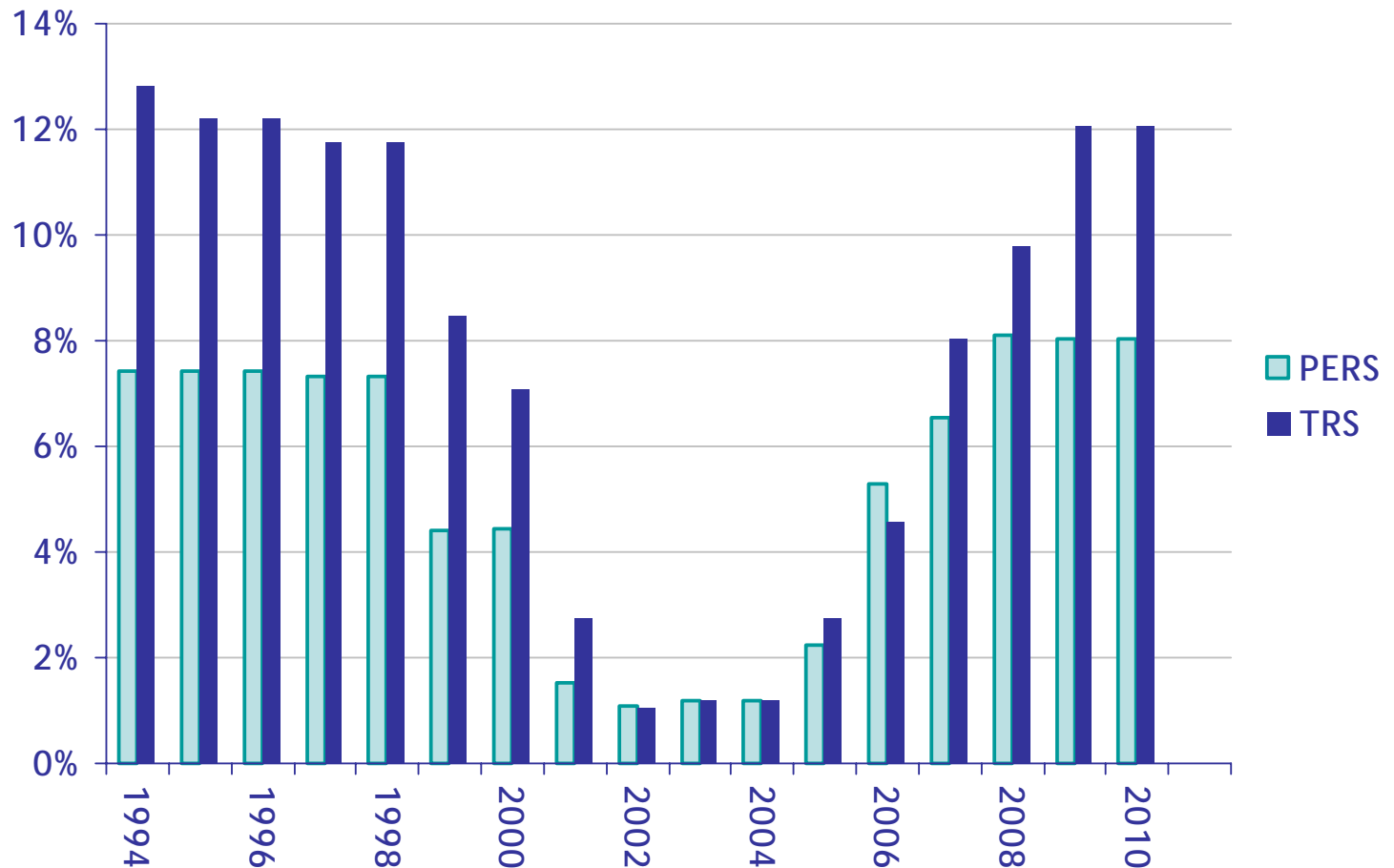
* Source: Washington State Investment Board; CTF =Commingled Trust Fund

Contribution Rate History

- Rates have responded to investment gains and losses
- Projected future rates are returning to historic levels
- Need for rate stability, adequacy



PERS/TRS Employer Contribution Rates



Legislature's Response to Volatility

- Followed recommendations of the SCPP
- Phase into required rate increases
- Establish minimum rates, or rate floors after phase-in



Relationship to SCPP Goals

- Contribution Rate Setting
 - Adequate, predictable, and stable rates
- Consistency with Statutory Goals (an SCPP goal)
 - Dependable and systematic funding
 - Amortize Plan 1 Unfunded Actuarial Accrued Liability (UAAL) by 2024



Cues From this Interim

- Number one concern of the SCPP: Gain-sharing
 - Significant financial obligation
(almost \$1.6 billion PVFB, 2004 Valuation)
 - Not currently funded
 - Politically sensitive
- If market returns continue to be strong, a gain-sharing event may be imminent (2008)



Cues From this Interim *(Continued)*

- Theme: Getting the financial house in order
- SCPP studying Plan 1 Funding Method
 - TRS 1 and PERS 1 unfunded actuarial accrued liability (UAAL) - about \$4 billion
 - Current funding method spreads liability over all employers



Other Pressures on Retirement Benefits

- GASB 45: Required disclosure of retiree health care liabilities
 - Accounting requirement for state and local governments
 - Paid outside the pension system
 - Like gain-sharing, not currently pre-funded



Summary: Where is the Pension System Headed?

- Rates returning to historic levels
 - Addressing rate volatility
 - Addressing rate adequacy
- Grappling with unfunded liabilities in certain areas
 - Gain-sharing
 - Plans 1 UAAL
- Retiree health “overlay”



Part 2: What is the OSA?

- Office of the State Actuary (OSA) is a small agency
 - Within the legislative branch
 - Twelve-person staff
- Unique among the states
- Appointed by a statutory committee
 - Headed by fiscal chairs
 - Stakeholder appointees



Who is the State Actuary?

- Current State Actuary: Matt Smith
 - Enrolled Actuary
 - Fellow of the Conference of Consulting Actuaries
 - Member of the American Academy of Actuaries



Principal Duties of the State Actuary

- Perform valuations
- Recommend contribution rates
- Perform experience studies
- Set demographic assumptions
- Recommend economic assumptions to PFC
- Prepare fiscal notes



Principal Clients

- Staff the SCPP
- Assist DRS
- Assist LEOFF 2
- Assist Legislature
- Assist Governor
- Assist Volunteer Fire



How Does the State Actuary Affect Pensions?

- Calculates pension liabilities
- Applies economic and demographic assumptions
- Identifies required contribution rates
 - Affects employee paychecks
 - Affects employer budgets



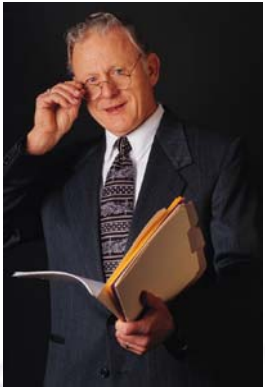
How Does the State Actuary Affect Pensions?

- Consults with policy-makers
 - Funding methods
 - Funding policy
 - Fiscal impacts
 - Plan design
 - Projections
 - Bill-drafting



OSA Values

- Professional
- Objective
- Confidential



Part 3: Are Washington's Pension Plans "Safe"?

- Funded status of all systems combined, actuarial value basis: 105%
- All plans have funded ratio in excess of 100% except Plans 1
 - PERS 1: 81%
 - TRS 1: 88%
- Plans 1 are closed



Compare Assets to Annual Disbursements*

- All plans: \$20.41 in assets for every \$1.00 in disbursements
- PERS 1: \$10.78 to \$1.00
- TRS 1: \$10.77 to \$1.00



* Based on 2004 Valuation, market value of assets.

Plans 1: UAAL

- Unfunded Actuarial Accrued Liability (UAAL) is common
- Found only in Plans 1 (closed plans)
- Amortized through June 30, 2024



Plan 1 UAAL

- Amortization period is now 18 years
 - Spread over all plan system payroll
 - Uses percent of pay amortization
- GASB standard is 30 years
 - Does not allow spreading outside plan



Plans 2/3

- Use aggregate funding method
- Do not allow unfunded accrued liability outside the plans' normal cost
 - Benefit increases funded as part of normal costs
 - Cannot push on-going costs onto future generations



Washington Plans

- Strong investment program (beating its benchmarks)
- Pays all scheduled benefit payments
- Protected by the courts
 - Backenhus - benefits
 - Weaver v. Evans - funding



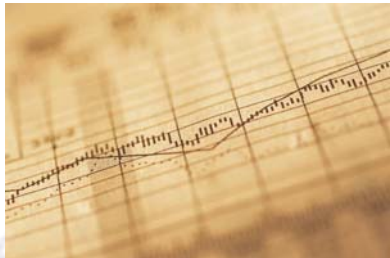
Summary

- Funding is a high priority
- SCPP and Legislature are grappling with Plan 1 UAAL and Gain-sharing
- GASB 45 may change the funding environment



Summary *(Continued)*

- Contribution rates are returning to historic levels
- Minimum floors
 - Reduce future rate volatility
 - Increase rate adequacy
- Actuarial valuations show Washington plans are well-funded



Resources for Further Information

- Today's handouts
- OSA website
 - Detailed information about contributions
 - Links to reports, valuations
- SCPP website
 - All meeting materials and agendas
 - Policy analysis, reports

